

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BEC1054 –FUNDAMENTALS OF ECONOMICS

(All sections / Groups)

24 OCTOBER 2019

9.00 a.m. – 11.00 a.m.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of SEVEN (7) pages with:
Section A: Thirty (30) multiple-choice questions
Section B: Three (3) structured questions
2. Answer all questions.
3. Please answer Section A in the multiple-choice answer sheet and answer Section B in the answer booklet provided.

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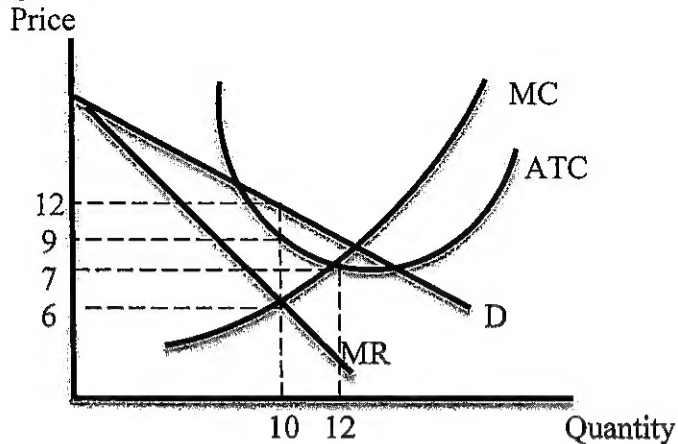
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SECTION A: MULTIPLE CHOICE QUESTIONS

Answer all questions below in the multiple-choice answer sheet (30 marks)

1. Which of the following would not help identify market structure?
 - A. Number of firms in the market.
 - B. Price (in RM) of a particular good.
 - C. Ease of entry into the market.
 - D. Forms of competition among firms in the industry.
2. Suppose Shaid's Durians, a small firm supplying durians in a perfectly competitive market, decides to cut its production in half this year. As a result, the
 - A. market price will rise.
 - B. market price will fall.
 - C. market price will not be affected.
 - D. total expenditures on durians will rise.
3. Which of the following is not considered a barrier to entry?
 - A. Patents.
 - B. Government licenses.
 - C. Economies of scale.
 - D. Diseconomies of scale.
4. A monopolist that engages in perfect price discrimination
 - A. divides all buyers into two mutually exclusive groups.
 - B. charges the same price for every unit sold.
 - C. charges a different price for every unit sold.
 - D. charges buyers who want a little of the good a low price and charges buyers who want a lot of the good at high price.
5. Because of easy entry, monopolistically competitive firms will
 - A. produce at the lowest average total cost.
 - B. charge a price equal to marginal cost.
 - C. earn no economic profit in the long run.
 - D. take advantage of all economies of scale.
6. Collusion is easier to achieve and maintain in oligopoly when
 - A. there are many firms in the industry.
 - B. the firms' products are homogeneous.
 - C. the firms' cost structures are very different.
 - D. there are very weak barriers to entry.

Continued...

Figure 1

7. Refer to **Figure 1**. In the short run, the firm should
 - A. produce 12 units at a price of RM7 per unit.
 - B. produce 10 units at a price of RM12 per unit.
 - C. produce 10 units at a price of RM9 per unit.
 - D. produce 10 units at a price of RM6 per unit.
8. In the Bertrand model
 - A. the dominant firm (leader) sets the quantity or output first, followed by the follower firms.
 - B. the dominant firm (leader) sets a price level, then the smaller firms (followers) follow its pricing policy.
 - C. the firms simultaneously try to decide what quantity to produce.
 - D. the firms simultaneously try to decide what price to produce but assumed that firms have the same cost structure.
9. The short-run supply curve of a perfectly competitive firm is
 - A. its average fixed cost curve.
 - B. the part of its marginal cost curve rising above the average variable cost curve.
 - C. the part of its marginal cost curve below the average variable cost curve.
 - D. marginal product curve.
10. A perfectly competitive firm is currently producing where price is RM8 and both marginal cost and average variable cost are RM9. To maximise profit or minimise loss in the short run, this firm should
 - A. raise its price.
 - B. increase its output.
 - C. reduce its output.
 - D. shut down.

Continued...

11. Potential output will increase if
 - A. aggregate demand increases.
 - B. inflation is reduced.
 - C. supply shocks are avoided.
 - D. immigration increases.
12. If there are floods or droughts or a decrease in the availability of raw materials,
 - A. aggregate supply shifts right.
 - B. output falls in the short run.
 - C. prices fall in the short run.
 - D. none of the above is correct.
13. Which of the following would cause stagflation?
 - A. Rising government expenditures.
 - B. Rising oil prices.
 - C. A falling money supply.
 - D. Technical progress.
14. When in Indonesia you notice that prices are posted in rupiah, this best illustrates money's function as
 - A. a store of value.
 - B. a medium of exchange.
 - C. a unit of account.
 - D. a method of barter.
15. When conducting an open-market sale, the central bank
 - A. buys government bonds, and in so doing increases the money supply.
 - B. buys government bonds, and in so doing decreases the money supply.
 - C. sells government bonds, and in so doing increases the money supply.
 - D. sells government bonds, and in so doing decreases the money supply.
16. On a bank's T-account, which are part of the banks assets?
 - A. Both deposits made by its customers and reserves.
 - B. Deposits made by its customers but not reserves.
 - C. Reserves but not deposits made by its customers.
 - D. Neither deposits made by its customers nor reserves.
17. The lag problem associated with fiscal policy is due mostly to
 - A. the fact that business firms make investment plans far in advance.
 - B. the political system of checks and balances that slows down the process of implementing fiscal policy.
 - C. the time it takes for changes in government spending or taxes to affect the interest rate.
 - D. all of the above are correct.

Continued...

18. A reduction in Malaysia net exports would shift Malaysia aggregate demand
- A. rightward. In an attempt to stabilize the economy, the government could raise taxes.
 - B. rightward. In an attempt to stabilize the economy, the government could cut taxes.
 - C. leftward. In an attempt to stabilize the economy, the government could raise taxes.
 - D. leftward. In an attempt to stabilize the economy, the government could cut taxes.
19. If the $MPC = 0.6$, then the government spending multiplier is
- A. 0.63.
 - B. 1.67.
 - C. 2.5.
 - D. 5.
20. In the short run,
- A. unemployment and inflation are positively related. In the long run they are largely unrelated problems.
 - B. and in the long run inflation and unemployment are positively related.
 - C. unemployment and inflation are negatively related. In the long run they are largely unrelated problems.
 - D. and in the long run inflation and unemployment are negatively related.
21. As aggregate demand shifts right along the aggregate supply curve,
- A. inflation and unemployment are higher.
 - B. inflation is higher and unemployment is lower.
 - C. unemployment is higher and inflation is lower.
 - D. unemployment and inflation are lower.
22. If the government decreases government expenditures, then in the short run prices
- A. rise and unemployment falls.
 - B. fall and unemployment rises.
 - C. and unemployment rise.
 - D. and unemployment fall.
23. Which of the following items plays a role in determining productivity?
- A. Physical capital.
 - B. Natural resources.
 - C. Technological knowledge.
 - D. All of the above are correct.

Continued...

24. Human capital is
- A. the same thing as technological knowledge.
 - B. the same thing as labour.
 - C. the tools and equipment operated by humans.
 - D. knowledge and skills that workers have acquired.
25. Which of the following growth theories emphasises transferring ideas to stimulate economic growth?
- A. Classic growth theory.
 - B. Neoclassic growth theory.
 - C. New growth theory.
 - D. Classical Harrod-Domar model.
26. When the real exchange rate for the ringgit (RM) depreciates, Malaysia goods become
- A. less expensive relative to foreign goods, which makes exports rise and imports fall.
 - B. less expensive relative to foreign goods, which makes exports fall and imports rise.
 - C. more expensive relative to foreign goods, which makes exports rise and imports fall.
 - D. more expensive relative to foreign goods, which makes exports fall and imports rise.
27. In the open-economy macroeconomic model, if for some reason foreign citizens want to purchase more U.S. goods and services at each exchange rate, then
- A. the demand for dollars in the market for foreign-currency exchange shifts right.
 - B. the demand for dollars in the market for foreign-currency exchange shifts left.
 - C. the supply of dollars in the market for foreign-currency exchange shifts right.
 - D. the supply of dollars in the market for foreign-currency exchange shifts left.
28. A limit on the quantity of a good produced abroad that can be purchased domestically is called a(n)
- A. tariff.
 - B. excise tax.
 - C. import quota.
 - D. subsidies.
29. The theory of specialisation and free trade that benefit all trading partners is called a(n)
- A. absolute advantage.
 - B. mutual advantage.
 - C. comparative advantage.
 - D. terms of trade.

Continued...

Table 1

Countries	Phones (units)	Radios (units)
A	70	90
B	50	50

30. Refer to **Table 1**. Which country has an absolute advantage in the production of phones and radios respectively?
- A. Country A; Country A
 - B. Country B; Country B
 - C. Country A; Country B
 - D. Country B; Country A

SECTION B: STRUCTURED QUESTIONS (70 marks)

Answer all questions below in the answer booklet.

Question 1

- (a) Explain the expenditure approach method of measuring gross domestic product (GDP).
(10 marks)
- (b) Distinguish between nominal and real GDP.
(4 marks)
- (c) Discuss **TWO (2)** limitations of the GDP concept by giving an example each.
(6 marks)
(Total: 20 marks)

Question 2

- (a) Based on the 'interest-rate effect' and 'wealth effect', discuss what happens to the aggregate output when the overall price level increases.
(7 marks)
- (b) Give **THREE (3)** factors that shift the aggregate demand curve leftward.
(6 marks)
- (c) Discuss the shape of the short run aggregate supply curve.
(12 marks)
(Total: 25 marks)

Continued...

Question 3

- (a) Use the money supply and money demand diagram, interest rate and investment diagram, and aggregate demand and aggregate supply diagram to illustrate the central bank policy in an effort to restrain (slow down) the economy. Show how the policy may affect the employment level.

(15 marks)

- (b) 'Expansionary fiscal policy may be weak or largely ineffective in stimulating the economy'. Interpret this statement.

(10 marks)

(Total: 25 marks)

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